

# ***ALBANIA – THE DIFFICULT ROAD TOWARDS SUSTAINABLE GROWTH<sup>1</sup>***

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<sup>1</sup> Paper published in first edition of “Monitoring Albania’s Path to European Integration”, an annual publishing of Friedrich Ebert Foundation, Tirana, February 2003

## Introduction

When twelve years ago the Albanian citizens proclaimed their irreversible break with the dictatorship, few were fully aware of the harsh and complex reforms that the country had to undergo. The slogan guiding the anti-communist movement, “We want Albania like the rest of Europe”, rather than an appreciation of European values, was more indicative of a profound disapproval of the previous regime and a firm resolution to carry out immediate changes.

The subsequent steps demonstrated that the Albanian society, though wary to the point of distortion brought about by one of the most oppressive dictatorships the world had ever known, did finally vote in favor of opening up the country and undertaking market reforms, thus proving that it had preserved its inherent European inclination. The Albanian society knew how to quickly overcome the initial illusions of the consumption-era euphoria, and took on the responsibility of coping with all the challenges posed by a long, difficult unknown road that lay ahead.

Albania’s admission to Bretton Woods institutions on 15 October 1991 undoubtedly constituted an historic milestone at that point. That same year, Albania signed the first agreement with the European Commission, paving the way for economic and commercial cooperation between the two parties (entered into force 1 January 1992). The leap forward was unimaginable. After having been considered for several decades an anti-market symbol, Albania joined these institutions while still being in a state of confusion caused by ideological propaganda about the role of these institutions. Albania approached them with no previous experience in competition regulations and instruments and at a time when, as a result of the radical transformation going on throughout the country, it was gripped by sharp social and historical tensions resuscitated by the regional atmosphere.

A retrospective look at the road taken during these years, irrespective of transition costs and governing shortcomings, for which Albania still continues to pay for through blatant shortages in everyday life, confirms that the democratic alternative and the choice made for integration still enjoys the broadest consensus through the whole spectrum of the Albanian society. This is not merely an emotional choice. This consensus would have been seriously threatened without real growth of income in the national economy. Confidence in reforms becomes even more understandable when we see that, largely as the result of inflation, the per capita GDP grows even more quickly than the total GDP (Fig. 1).

Statistics, however, can not tell the full story. Many aspects of growth unfold only as they develop, and their full efficiency and benefits will be brought into operation many years later. What can be resolutely said after 11 years of reforms, is that Albania has become an open country unhesitatingly choosing the road towards the market economy.

The Albanian people are now conscious that the integration process into the developed world is a relationship between benefits and responsibilities

**Fig. 1: GDP and GDP per capita growth**

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP <sup>2</sup> growth rate (in per cent)	<b>-7.2</b>	9.6	8.3	13.3	9.1	<b>-7.0</b>	8.0	7.3	7.8	6.5
GDP per capita (thousand of US dollars)	211.0	381.5	610.8	737.8	808.9	684.0	906.5	1080.9	1094.4	1332.6
GDP per capita growth rate <sup>3</sup>		80.8	60.1	20.7	9.6	<b>-15.5</b>	32.5	19.2	1.2	21.7

The macro-economic stability, the satisfactory economic growth, the strengthening of the budget income, the increasing sustainability capacity of the economy, the increase of the contribution made by the private sector (up to 75%) in the national GDP, the constant improvements in law and order, infrastructure, in education and social assistance, are rendering the transition results ever more tangible. And perhaps more important than all the changes in the quantitative indices of the economy and domestic physical infrastructure, are the profound changes that have taken place in peoples' minds, ensuring that social behaviour is developed in line with requirements posed by the reforms and the political and social patterns that the country is aspiring to adopt.

Hence it is conceivable why the news of the European Commission's mandate to open negotiations for a Stabilisation-Association Agreement with Albania was viewed from most Albanians neither as a surprise nor as a gift. Most Albanians maintain that this is a very important, yet long-deserved decision. In the meantime, there is general understanding that the road towards full-fledged membership is still long and difficult..

### ***1. The First Stage of Stabilisation – Fragile Splendor***

Albania entered the last decade of the twentieth century as the poorest country in Europe. Although Albanians enjoyed acceptable standards in healthcare and education, a very high percentage of the work force (about 62%) was engaged in agriculture, the economy was run by extremely orthodox Communist methods, the population was totally isolated from any relations with foreigners, the internal market system was closed, and therefore Albania had an unusual level of autarchy which in turn reflected towards a pronounced tendency towards heavy industry and cereal production, a fast growing population and work force, and a history of constant interruptions of foreign trade orientation due to frequent changes in international political alliances.

<sup>2</sup> Calculations are based on official estimates for real GDP, in lekë.

<sup>3</sup> The gap between the two rates, GDP per capita rate and real GDP rate, can be explained by the negative change in the population size, as well as by year-to-year changes in the exchange rates.

The lack of political stability and the administrative chaos causing the disintegration of the planned economy in 1991-1992 produced a sharp budget deficit, whereas the immediate liberalization of prices and collapse in production caused a spike in inflation. Hence, by late 1991, the budget deficit was estimated at 44% of the GDP and in the early part of 1992, that deficit rose to the tune of 50%.<sup>4</sup> The increasing needs for imports on one hand and the budget deficit, on the other, were covered either by currency reserves or by state loans. The monetary expansion aimed at financing the budget deficit was accompanied by inflation, which by May-June 1992 was 10-15% a month. Production, and industrial production in particular, was on the decline. During the period under discussion industrial production was reduced by 50%.<sup>5</sup> (IMF Report 1994). Besides the economic recession (for 1992 only, estimates show a decline of 65% in economic performance), the crisis was accompanied by instant aggravation of social indicators, such as unemployment, social services and general insecurity.

The economic and political reforms were launched at a steady rate after 1992. The first non-Communist government (the Democratic Party) was characterised by a resolute willingness to carry out these reforms. Given the fact that it enjoyed large popular support, it was committed to a programme of radical reforms both in the field of political institutions and in the economy.

This initial phase of transition saw speedy and surprising progress, which won Albania a place among the most advanced central and southeastern European countries in terms of the rate and the intensity of the reforming process.

Over a three-year period, about 70% of the economy was privatised; prices and trade were almost entirely liberalized and tight monetary and fiscal policies led to an admirable macroeconomic stability: in 1995, inflation was estimated at only 7% against 231% recorded in 1991; in 1995, the budget deficit was 10% of the GDP as compared to about 50% in 1991; and the floating exchange rate applied in 1992 brought about sufficient stability of the domestic currency).

The reaction to these reforms was very quick. The newly emerging private sector proved to be highly dynamic, making the greatest contribution to overall economic growth. During the period 1993-1996, negative growth rates were recorded in many countries under transition, yet Albania experienced an annual average growth rate of 9.5%, which is very high even by East Asian standards.

As far as Foreign Investment, Albania attracted a modest 130 million USD, (or less than \$40 per person), but this indicators were comparable to that of many other countries undergoing transition. Meanwhile Albania received large contributions (about \$1 billion until 1996) from international donors and financial institutions.

Over the arch of a few years, a democratic legal framework was introduced, democratic institutions were set up, and a public administration that was much more qualitative and

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<sup>4</sup> National figures.

<sup>5</sup> Kaminski, Bartłomiej, 2002. *Performance, Trade Policies, and Institutions in South Eastern Europe: The Case of Albania*, mimeo, The World Bank, Washington D.C.

efficient than the previous one was created. Albania was quickly admitted as a member of international political and financial institutions such as the Council of Europe, the IMF, the World Bank, and the EBRD. And its foreign policy was oriented towards integration into Europe and Euro-Atlantic structures.

In the analyses made by foreign experts and institutions during 1994-1996 Albania was more often than not referred to as a “*special case of successful transition*”.

It should be mentioned though, that the transition “cost” was very heavy for the Albanian society. Liberalization and privatization led to the shutting down of many state-run industries, which in the years 1992-1993 caused unemployment to rise to an estimated 28.5%, which we believe remains approximate to this day. Entire social categories such as the retired, the unemployed and government officials were left with personal incomes that classified them under the poorest groups of society. Poverty was broader in the countryside, more severe in towns, and nearly despairing in the backward areas, particularly in northern and northeastern Albania.

Although it is not easy to explain, it is worth mentioning the fact that despite the great economic hardships, the social and psychological traumas experienced in the course of this radical transformation of the past ten years, Albanians have showed great courage in coping with the difficulties, revealing such a regenerating force and energy to move ahead that should be recognized and respected.

The successful and optimistic picture renders it difficult to provide explanations to one of the biggest traumas Albania had to go through: the grave political and social **crisis of 1997**. This crisis took even the most skeptical analysts of the post-communist transition by surprise. The results of the progress achieved over the first five years of reform through difficulties and high social costs disappeared nearly instantaneously.

The complete and immediate freezing of state institutions, the loss of public order, the social anarchy, the acts of violence and the destruction that prevailed in Albania during 1997 were not accidental results of incidental factors. The causes of the crisis were generated by a larger historical context in the development of Albanian society. Certain phenomena that emerged during the transition period, however, had a greater impact on these causes.

The weakness and fragility of the state institutions, and the public lack of confidence in the political institutions, were the most significant expression of the crisis; whereas the failure of pyramid investment schemes in which over 50% of the people had invested their savings was perceived as the direct cause of this crisis.

Of course, the cause behind this tragic crisis was not concerned merely, and perhaps not chiefly, by economic factors. Neither were the great economic and social transition hardships: the natural outcomes of the transforming reforms, nor the big financial losses that the population suffered in the pyramid investment schemes, sufficient grounds to generate that tragic social unrest.

We suppose that this was first of all an important warning with regard to the arbitrary and irresponsible policies being pursued.

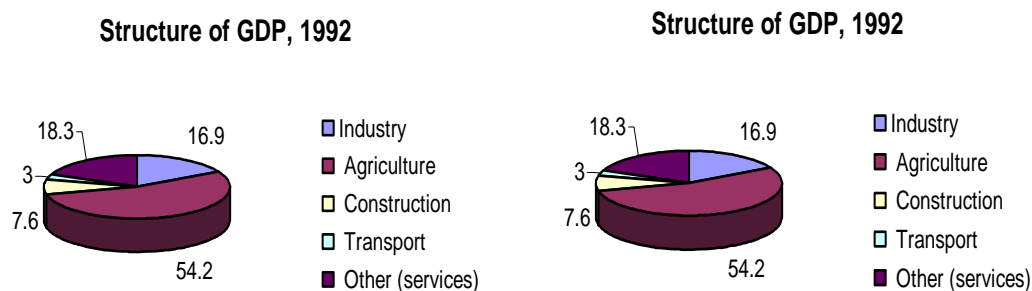
## 2. Quick recovery of lost time

A characteristic feature of the economic developments in Albania over the transition period was the country's ability to recover quickly, in economic terms. Following a 30% decline in outputs in early 1992, in 1993-1996 the GDP grew between 7 and 11% annually.

The regenerating capability, however, unfolded clearly following the 1997 crisis. Following a 7% decline during 1997, the GDP has grown by a value of 7-8% annually from 1998 to this day. There are certain factors that should be taken into account with regard to the Albanian phenomenon of quick recovery, although it is difficult to explain (at the same time all southeastern European countries had recessions, or recorded very low growth values, - about 2-3%):

- the very low base (initial starting) level
- the quick macroeconomic liberalisation (end of 1992)
- the rapid privatisation of farmland, trade and services (during 1993)
- the obvious capability of the population to adjust to free initiative practices and the dynamics of the newly emerging private sector
- the quick and large-scale immigration towards neighbouring countries - mainly Greece and Italy (about 20% of the total population), and high rates of remittances, which are thought to reach values of \$350-500 million annually
- considerable foreign aid during these years (approximately \$1 billion)

Fig. *Changes in the production structure during 1992-2002*



### Albanian Basic Indicators

	1998	1999	2000	2001	2002 <sup>1</sup>
Average Exchange Rate (per US \$)	151.23	137.69	143.71	143.0	139.0
Current Account (% of GDP)	6.1	7.2	7	7.3	8.2
Budget Deficit (% of GDP)	10.4	11.4	9.1	9	8.4
Unemployment (% rate)	17.7	18	16.8	15.2	N/A
CPI (% change)	8.7	-1.0	4.2	3.7	4

Source: Instat and Central Bank

The recovering force of the Albanian economy is also seen in the fact that, despite the instability caused by the war in neighboring Yugoslavia and Kosovo during which Albania shouldered the burden of hosting over 500,000 Kosovar Albanian refugees, again the economic growth indicators were almost not affected, and continued the high growth rate.<sup>6</sup>

Tab. *Albanian Foreign Trade*

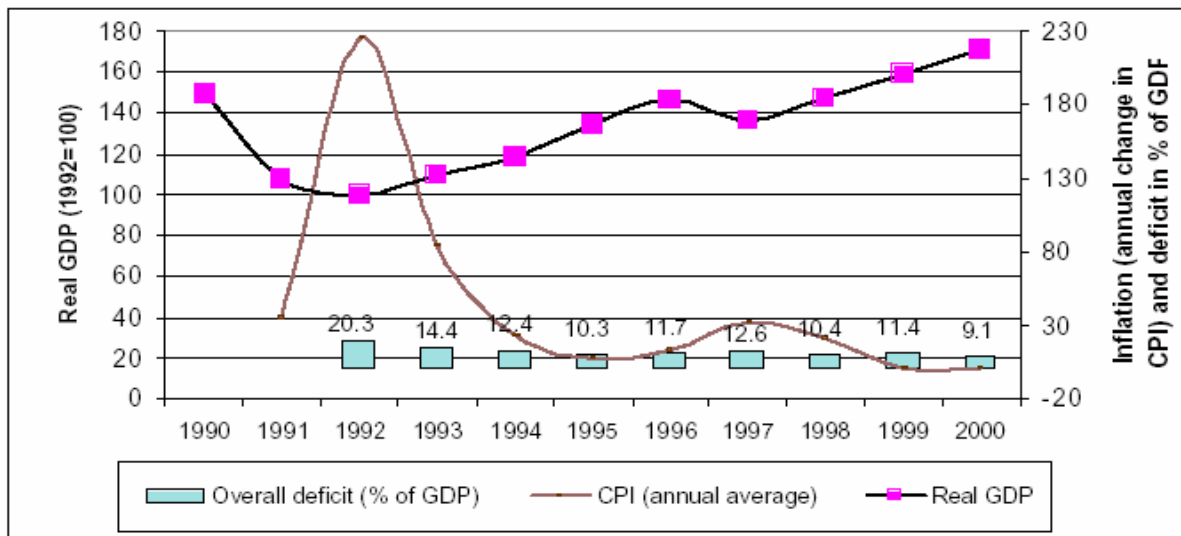
<i>In million USD</i>	1993	1994	1995	1996	1997	1998	1999	2000	2001
Eksports	111.7	141.4	204.8	243.7	158.6	208	274.4	255.9	304.6
Imports	-601.2	-601	-679.8	-922	-693.5	-811.7	943.0	-1079.3	-1337.5
Trade Deficit	-489.5	-459.6	-475	-678.3	-534.9	-603.7	-668.5	-823.4	-1032.9

### 3. *Sustainable growth?*

Can we state that Albania has already succeeded in having sustainable growth, and sufficient possibilities to be integrated into the European Union in the near future?

If we were to proceed from the relative stabilisation of basic indicators of economic growth following large fluctuations that went on until 1993, the answer would be positive. (Fig 2)

Fig. 2. The dynamics of inflation, deficit and real growth



Source: IMF Country Report No. 01/118, July 2001.

However, a definitive positive answer would be too optimistic and far from reality.

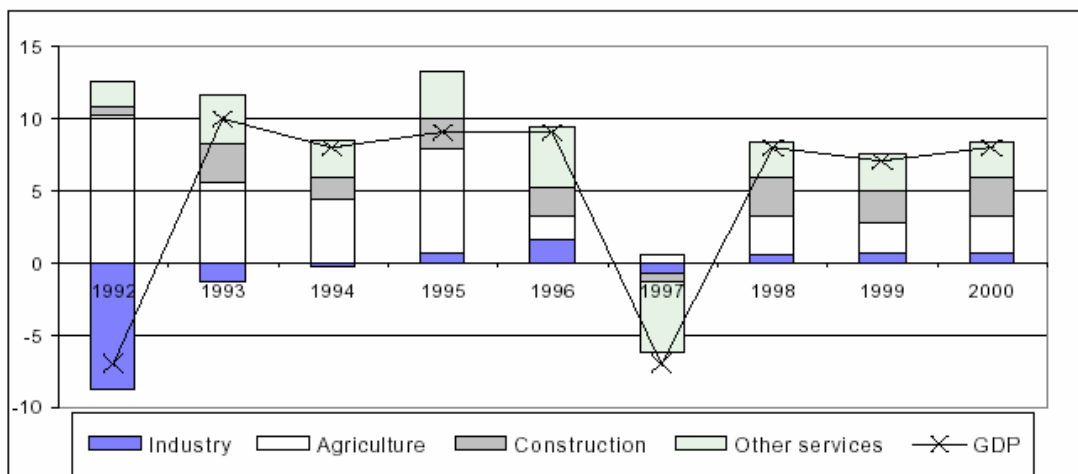
<sup>6</sup> Riccardo Faini, 2001. *Macroeconomic Stabilisation during the Transition: Albania's Experience in a Comparative Perspective*, mimeo. Ministero dell'Economia and CEPR, December.

**First**, the impressive growth of outputs during these years has been more of a “revival” than “steadfast growth”. One can talk of “growth” and “steadfastness” when an economy has considerable growth in assets and capital products, large investments in technology, and a tangible increase in the educational and vocational level of human capital. None of the above factors has been achieved in sufficient levels in the Albanian economy. The FDI level remains one of the lowest recorded in the transition countries (\$160 per capita in 2000); agriculture and trade supply the largest share of the GDP (established at approximately 50%), whereas industry’s contribution is estimated to hardly reach the level of 10% share of GDP.

It is clear that Albania’s economic performance is supported by domestic capital and certain urban sectors. Today’s economy is almost entirely oriented towards imports, and foreign deficit is still high (imports exceed exports by five times). Agriculture, which has hitherto had the highest growth rates and contributed the largest part to the GDP (Fig. 3), is giving signals of slowdown caused by the structural deficiencies due to the very small size of farms (1-1.5 hectares) and the fact that land trade is still at a very rudimentary stage. Poverty is increasing, and in several parts of the country it matches the levels recorded in underdeveloped countries (17.4% of the population is estimated to live in complete poverty).

Albania has a higher polarisation and disparity of society and poverty than all the other countries of central and southeastern Europe. In for 1998 the value of the GINI indicator was 0.43. Even though the official level of poverty in Albania is very low (an Albanian family with less than 6500 lek or 50 Euros a day), about 20% of the population is below this level, while one fifth of the population survives with less than 1.2 Euro a day. The education level of the population has fallen significantly, and the widespread phenomenon of “brain-drain” has considerably impoverished the quality of human capital.

**Fig. 3: Albania - Contribution of various sectors to the GDP growth from 1992-2000 (in per cent)**



Source: Trade policies and institutions in the SEE countries in the EU Association and Stabilization process, World Bank, Regional Report (draft), 2002



Currently, the GPRS and the three-year guarantee (+MTF) GPRS, is the first initiative launched nationwide for the purpose of achieving a medium-term programme of governmental interventions. An analysis of the process of economic transformations carried out over a transition decade indicates that this document focusing on the comprehensive growth also emphasizes yet untapped economic growth resources. By identifying the barriers to economic growth and threats to the country's macro-economic stability, the priority public action plan aims precisely at removing these barriers. Another important feature of the GPRS is that it serves as a reference point for devising the Government's medium-term budget programme in compliance with established priorities following a comprehensive discussion with all players involved.

<b>2001 Figures</b>	<b>Albania</b>	<b>Bulgaria</b>	<b>Macedonia</b>	<b>Romania</b>	<b>Croatia</b>
GDP per capita (US\$)	1218	1686	1674	1772	4625
Average Exch. Rate (per US\$)	143.0	2.185	68.04	29061	8.34
Current Account (% of GDP)	-7.3	-6.5	-10.3	-5.9	-3.1
Budget Deficit (% of GDP)	-9	-2.3	-2.5	-3.1	-2.2
Unemployment (% rate)	15.2	17.3	30.5	8.6	23.1
CPI (% change)	3.7	7.4	7.2	34.5	4.9

Source: National Statistics

**Secondly**, properly-functioning market institutions have not yet been established. They are either incapable, nonfunctional or corrupted. The weakness or non-existence of market regulatory mechanisms, which during the first stage of reforms facilitated and promoted the flourishing of small-sized business and the accumulation of starting capital, have now become a real obstacle to development. Monopolies, whether open or covert, total failure of properly-functioning market supervision mechanisms, the worrying proportions of informal economy and crime in particular, constitute large barriers to the introduction of FDI and increase in private investments, and distort the price structure and reallocation of capital and human resources.

The energy crisis that has had the country in its iron grip for the past two years and would have resulted in a better finale had it lasted for a medium-term period of time, compromises severely any expected economic growth. Albanian analysts foresee growth rates declining considerably in 2002 (from 6.5% in 2001 to only 4-5%). Macro-economic stability, which has been achieved, is still very fragile, while the world economy will continue to be exposed to internal and external shocks.

Unlike other countries in the region, the road infrastructure in Albania is below normal standards, and there is much to be done in the fields of electrical energy, telecommunications and road interconnections. The country's financial system resembles a banking system. Although about ten private banks are operating in Albania, their role in the country's economy is insignificant (whereas in 2000 the total in saving accounts was estimated at 34.8% of the GDP, credit intended for the private sector comprised only 10.2% of the total of all deposits).<sup>7</sup>

Setting in motion and strengthening market mechanisms and institutions, thereby reducing the informal sector of the economy remain the only strategic challenges for the

<sup>7</sup> Bank of Albania, *Economic Bulletin*, No. 1, 20002

time being. Protection of property rights, respect for contractual obligations, strict application of the exit mechanisms, normal functioning of market regulatory bodies including the anti-trust and anti-dumping mechanisms are ineffective and in an almost chaotic state. Financial and technical assistance provided by donors in these directions has been focused more on the drafting of laws and the formal setting up of respective agencies, rather than the continuation of support towards their strengthening, training and supervision, which would be sorely needed.

The weak functioning of the institutional market mechanisms has led to the prevalence of a free private economy (similar to anarchy) in the market, which is a far cry from a normally functioning market economy. The immediate concern regarding the informal sector of the economy, which makes up about 40% of annual output,<sup>8</sup> is criminal activity, including traffic in human beings and narcotic substances, massive tax evasion, the discriminatory (partial) and selective application of custom taxes and duties, and the monopolies of inputs (though frequently covert) and internal trade. The biggest threat to the internal economy and social development in Albania is the fact that the country may find itself in the grip of a low-level reform equilibrium (partial reform), in which case it will find it impossible to walk away from this road.<sup>9</sup>

#### ***4. Stabilisation-Association process - a guarantee for reforms***

The tragic events that affected Albania in 1997 were not the only and last that have occurred in the region. They were anticipated by a series of conflicts that developed into wars in the process of the dismemberment of former Yugoslavia. New interethnic confrontations and tensions erupted even later on, indicating that fragility was a common feature for the Balkan countries. It became clear that conflict situations were no longer only a latent potential in the inter-regional relations. They have already grown into a real threat to investments made hitherto by the donor community, and more importantly, to the fate of the initiated reforms.

Recognising the above, in 1999 the European Commission crafted the Stabilisation and Association Process as a new “framework” to ensure progress and safeguard reforms in southeastern Europe. In June 2000 this concept was endorsed by the Council in Feira. In the Zagreb summit, on 24 November 2000, it met the full approval of all countries in the region as well, thus being proclaimed as the principal platform for economic and social development until their full admission to the European Union.

We maintain that the Stabilisation and Association Process is a guarantee of the reforms because it is based on:

The guaranteed perspective of European Union membership, provided that fundamental principles and standards affecting the rule of law, consolidated democratic institutions and the development of a market economy are accepted and implemented.

The need for these countries to develop bilateral relations as basis for greater economic and political stability in the region.

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<sup>8</sup> *Albania - Stabilisation and Association Report*, Brussels SEC (2002)

<sup>9</sup> See for more *Transition, the First Ten Years*, World Bank, 2002

The need for assistance programmes for these countries to serve as political and economic perspective, while retaining the appropriate flexibility that allows each country to determine its own rates for overcoming the post-conflict situations, and adopting the *acquis communautaire*.<sup>10</sup>

The Stabilisation and Association Process is already beginning to produce desired results. The region is becoming more stable. Its countries are engaged in ambitious political and economic reform programmes based on EU law and practice. These achievements are set out in detail in the attached country reports.

Another element that makes of the Stabilisation and Association Process a guarantee for the democratic future of southeastern Europe is the fact that it is a long-term and dynamic process. It is not based on every reforming step, but on a “lasting reform”. As it develops, this process gains flexibility and a dynamic character, thus being able to keep abreast of developments in the region, in the EU itself and across the world, and react promptly to sudden crises. Its access to more efficient instruments in the future, which will help tackle chronic problems such as weakness of democratic institutions and rule of law, corruption, national extremism, poverty and social exclusion, will make it a real buffer of the climate in the region, contributing considerably to regional cooperation and the absorption of foreign investments.

Albania is an active participant in the Stabilisation and Association Process, and is demonstrating consistent resolve in the fulfillment of conditions on the path to European integration.

The opening up of negotiations for a Stabilisation and Association agreement with the EU, formally declared by the President of the European Commission Mr. Romano Prodi during his visit in Tirana on January 31<sup>st</sup>, is expected to act as a major political and psychological encouragement, helping the country channel its efforts into the European platform in a more useful way.

##### **5. *The donors and the civil society – important factors for minimizing the “development costs”***

The planned reforms contained in the government’s agenda, such as privatisation of public services and of some strategic companies, the invigoration of the fiscal system and of regulatory market mechanisms are in fact an indicator of the pressure exercised and requests tabled by donors and non-government factors rather than a serious commitment made by government. The bureaucracy of the donor party, on one hand, dictates objectives and deadlines to be met, which seem to serve and justify the “progress” and “success” of their programmes. On the other hand, the government seems to be lacking in appropriate preparation and suitable possibilities for the implementation of those programmes.

Experience has showed that the results have been a formal fulfillment of the objectives, or their anticipated implementation, but far from the practical focus of the programmes (delays in the privatisation of the Savings Bank or the problematic privatisation of the telecommunication and banking sectors in the period 2000-2001 are typical examples).

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<sup>10</sup> European Commission, *Albania - Country Strategy Paper 2002-2006*.

On the other hand, the Albania-based representatives of certain donors and IFI-s are rather looking forward to promoting their performance while not shying away from speaking in the media about the “successes” of reforms here. After being tolerated for a long period of time by the donors themselves, the conditional criteria are condemned by the donors themselves usually when it is too late.

There are of course some movements in the right direction. Donors like World Bank, USAID, DIFID or the Dutch Government, especially during the last two years, are seriously concerned to optimize the efficiency of their assistance through holding preliminary discussions and consultations with various governmental agencies, either representatives of the government or local groups, involving in these discussions also the non for profit organizations, with regard to the assistance they provide. Most other donors, however, are usually content to discuss the assistance programmes with the appropriate ministries or the specific agencies assigned by them, which more often than not prompts competition among domestic institutions. The conditional criteria and terms affecting foreign assistance becomes usually information accessible only by certain ministries. Other players, such as the parliament or civil society, learn about them only when failure to implement the projects drives the donors into announcing them openly. Important donors have developed their own ways to convey the vision, practices and procedures of the organisations they run, often causing symptoms of confusion in the Albanian administration.

Such situations have led to an unclear or unstable legal framework, and to the adoption of institutional patterns, which fail to be compatible with one another, and even less so with reality. Not infrequently, reforms are oriented towards contradicting priorities, which often reflect the “specific vision” of the various international organisations. The most positive impact the Stability Pact is expected to bestow is the promotion of a higher level of coordination and harmonisation among the various donor programmes. It was precisely at this point that the Stability Pact perhaps failed, giving rise to competition and jealousies among the various donor agencies that have been ongoing for the past two years.

Failure to have a competent and efficient system intended to monitor and assess reforming policies and programmes within the governmental system seems to be a significant structural shortcoming of the country. The monitoring groups have been set up on a temporary basis, with brief and insufficient training. A parallel and coordinated monitoring system, covering all the ministries and principal governmental agencies, would ensure an accurate and timely assessment of the achievement of political indicators and the efficiency or the misuse of such funds, by making periodic arrangements whenever possible, while facilitating and evaluating the impact of foreign assistance programmes. It is paradoxical to think that, while the government is systematically a target of criticism for failing to meet the objectives of its programmes and for misuse of funds, the reports on foreign assistance assessment written by the donors’ bureaucracy speaks only of successes, surprising impacts and high efficiency!

The impose of assistance in the form of “tied aid” is another element, which in certain cases compromises the image of foreign assistance and considerably reduces its efficiency. Varied examples could be cited to this effect, such as the large input of technical assistance (foreign counseling) as part of the budget for every programme. This kind of assistance is very costly, and of very poor quality. Another example is the selection of western companies to be responsible for the implementation of a project, which sometimes are not completed in time nor do they have the appropriate desired output. Although there is no doubt about the high level of corruption in public administration, one finds it impossible not to think that the frequent and excessive reference to this corruption by representatives of the international community, in a number of cases, serves as an excuse either for the inefficiency of their own programmes or corruption in the donor bureaucracy itself.

Activating and invigorating of market mechanisms and institutions and the reduction of the informal sector of the economy remain the only strategic challenge for the time being. The protection of property rights and respect for contractual obligations, strict application of exit mechanisms, standard functioning of market regulatory bodies and anti-trust and anti-dumping mechanisms are ineffective and in an almost chaotic state. The donors’ financial and technical assistance provided hitherto in these directions has rather been focused on the drafting of laws and formal setting up of the respective agencies, whereas what would be needed was to continue support for their strengthening, training and supervision.

Finally, we have “macro-economic informality”. To what extent are the figures on the GDP guaranteed? Often our statistics cannot calculate the GDP, or the “direct” method provides decidedly different figures because of “cooked” balance-sheets submitted by companies and enterprises, or their absence altogether from the informal business.

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